Oil & Gas

Petronas: Emerging Stronger After 2025

MARKET WEIGHT
(Maintained)

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Highlights

- **Emerging stronger after weathering through 2025.** Described as a year of polycrisis that caused a 19% decline in profits, and necessitates the group to execute right-sizing exercises (two more phases in Mar and Jul 26), Petronas' cash flow preservation remains commendable. Looking ahead, with much lower dividend obligation and minor upside to normalised capex commitment levels, 2026 can be viewed as a year for Petronas to refocus on its renewed, core strategies, including: a) sustain the upstream momentum to ultimately meet 2m boepd production in Malaysia; b) improve overseas projects to 60% upstream mix; c) refocus and grow energy transition projects; and d) pursue innovation, and creative "borderless partnerships" (the Eni JV will be a key event for 2026) that will lead to better project returns on "Advantaged Energy".
- **A true constitutional resolution on 16 Mar 26 may be the key to revive sector valuation.** This is the catalyst to watch out for, vs geopolitical events from Red Sea developments, as Petronas does not base its long-term view of oil prices on such geopolitical events. We recall when the Petros-Petronas disputes reached a peak in 2H24, sector valuations traded at a discount that remains persistent (and justified via actual earnings performances) till today. The Federal Court's decision (hopefully on 16 March) is the true resolution sought after by all parties, and may reverse at least most of the discounts. Our valuation tables reflect such scenario, as we do not factor in a permanent discount from the MA63 disputes. If any, some discounts were being gradually applied to reflect negative earnings shocks, which were also an indirect impact.
- **For now, we still retain sector MARKET WEIGHT** but advise a wait-and-see approach for the key event. We also think there is no urgency to jump on the boat, as opportunities to accumulate at low levels will arise in the next few quarters while legacy earnings risks clear. MISC and Dialog remains as our top picks.

Analysis

- **About RM12.5b upstream capex spent on Malaysia.** Around 60% or RM25b of group capex of RM41.6b (-23% yoy) was for domestic projects, which is lower vs RM33b yoy. Half of that is upstream capex spent on Malaysia, which is still lower vs RM13.7b/RM15.9b in 2023/2024. The official reason for the capex decline is projects not meeting economical returns. Earlier, Petronas wanted to recalibrate upstream projects to be profitable at US$50/bbl oil price, vs US$60/bbl previously. Reasonably, there was some impact from the ongoing geopolitical tussle between the Federal Government and Sarawak. Petronas revealed in the Malaysia Bid Round 2026 that production sharing contract (PSC) work commitments of RM57b is already secured for 2026, and guided RM50b-60b capex is required to sustain Malaysia's upstream engine.

Sector Picks

Company	Ticker	Rec	Share Price (RM)	Target Price (RM)
Yinson Holdings	YNS MK	BUY	2.49	3.10
MISC	MISC MK	BUY	8.17	8.70
Dialog Group	DLG MK	BUY	1.81	2.70

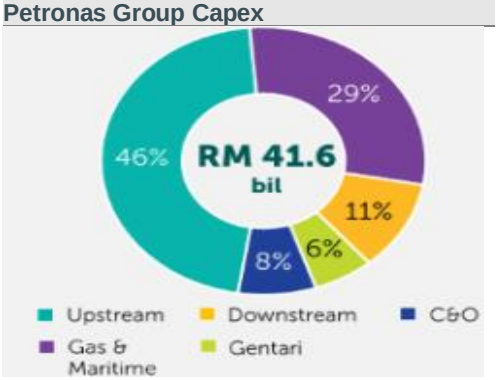
Source: Bloomberg, UOB Kay Hian

Petronas Segmental Performance

RMm	2025	1H25	2024
Group profit	45.4	26.2	55.8
Group EBITDA	103.0	54.4	114.1
Upstream profit	26.2	16.5	34.9
Production ('000 boepd)	2,423	2,403	2,451
Entitled production boepd)	1,659	1,654	1,671
Gas & Maritime profit	20.9	10.4	19.9
Gross LNG volume (mt)	36.62	17.34	35.65
Downstream profit	(1.8)	(0.8)	(0.7)
Chemical volume (mt)	10.5	5.1	10.1

Source: Petronas

Petronas Group Capex



Source: Petronas

Peer Comparison

Company	Ticker	Rec	Price 2 Mar 2026 (RM)	Target Price (RM)	Last Year End	Market Cap. (RMm)	PE 2025 (x)	PE 2026F (x)	PE 2027F (x)	Price/ BV ps (x)	ROE 2026F (%)
Bumi Armada	BAB MK	BUY	0.35	0.40	12/25	2,075	4.0	4.4	4.0	0.3	7.1
Dialog Group	DLG MK	BUY	1.81	2.70	6/25	10,219	25.0	21.7	20.8	1.9	12.2
Deleum	DLUM MK	BUY	1.25	1.55	12/25	502	6.7	6.1	5.3	1.0	22.1
MISC	MISC MK	BUY	8.17	8.70	12/25	36,469	15.6	13.9	12.4	0.9	6.3
MMHE	MMHE MK	BUY	0.40	0.50	12/25	640	7.7	7.8	6.0	0.4	4.1
Petronas Dagangan	PETD MK	HOLD	22.26	23.20	12/25	22,114	20.0	20.2	19.8	3.6	10.0
Uzma	UZMA MK	BUY	0.43	0.76	6/25	256	5.6	4.4	4.2	0.4	10.1
Velesto Energy	VEB MK	HOLD	0.32	0.35	12/25	2,588	16.0	18.1	18.1	1.2	8.2
Yinson Holdings	YNS MK	BUY	2.39	3.10	1/25	7,691	15.7	9.0	8.6	1.4	12.7

Source: Bloomberg, UOB Kay Hian

- **Petronas' 2025 financials snapshot: 2025 profit/EBITDA declined by 19%/10% yoy** as a result of lower average prices, lower upstream production (especially from international portfolio), and higher finance costs especially after the issuance of US$5b senior multi-tranche bonds in Mar 25. All segments saw profit declines save for gas & maritime. Steady demand for LNG lifted prices by 7%. Also, the successful commissioning of LNG Canada helped lift gross LNG volumes yoy from 35.7MT to 36.6MT.
- **RM30.3b assets held for sale are intended for satellite model with ENI** pursuant to a Nov 25 Investment Agreement signed between Petronas and Eni to formally establish a JV to combine certain upstream assets in Malaysia and Indonesia. 2026 is expected to have a major event that completes the JV setup. The RM30b assets comes with related liabilities of RM11.1b, but the details of which Malaysian or Indonesia upstream fields are still unknown. Eni's successful satellite model, that emphasised setting up certain businesses as independent "satellites" with other financial partners to de-risk capital dependance and accelerate growth, includes Azule Energy. Alongside Yinson (YNS MK, BUY/Target: RM3.10), the FPSO Agogo started up 10 months ahead of Azule's original plan
- **JV project financing amounting to US$315m (2024: US$343m)** for the Pengerang Integrated Refinery Complex, was within Petronas' RM26b term loans (out of RM121b borrowings). Petronas' project completion guarantee by way of a debt service undertaking for a Guaranteed Project Completion Date was originally Dec 23, extended first to Dec 25, and now further extended to Dec 27. Petronas Chemicals (PCHEM MK, NR) is the other principal partner of this project. Among service players, Dialog (DLG MK, BUY/Target: RM2.70) has significant storage exposure and an expansion project at the complex.
- **Domestic gas market: Slight recalibration in 2025, but growth intact**. In 2025, Petronas delivered 2,922 mmscfd of natural gas domestically (2024: 3,050 mmscfd), out of which 2,171 mmscfd was delivered to Peninsular Malaysia (2024: 2,315 mmscfd). Peninsular Malaysia continued to account for over 75% of national gas demand, despite a small yoy decline in 2025 arising from lower offtake from the power and non-power sectors. We believe this was attributed to rapid acceleration of renewable energy capacity, which exceeded target at over 31%, ahead of the 2025 deadline. However, Peninsular gas demand is still forecasted by Petronas to grow to 2,305 mmscfd in 2026, and double to 5,196 mmscfd by 2035, driven by data-centre expansion and coal plant retirements.
- **Expects 2028 to be the full liberalisation of gas market for Peninsular Malaysia.** Aligning with the latest government projections, Petronas is also developing a third Regasification Terminal in Perak. Petronas thinks that a full liberalisation, including an open market pricing, is needed to spur gas imports and ensure supply security. The partial opening of segments of the gas industry has benefitted players like Uzma (BUY/Target: RM0.76). Uzma's energy trading segment has been building its track record until it achieved the top spot for LNG trading via Virtual Pipeline Systems since 2023. Recently, Uzma secured a steady flexible LNG supply arrangement from Petronas that will enable it to have greater market reach over customers in the open market.
- **Affirm RM20b dividends for 2026.** Marking the lowest dividend since 2017 (2024/25: RM32b), but guiding for a moderate upside in capex to RM45b-50b p.a, shows that Petronas is cognisant of the cash flow impact from "lower for longer" oil prices, and commitments to energy transition. We opine that within the big picture capex plans, Petronas may need to accelerate the capex rollout for energy transition. For example, the carbon capture and storage value chain, such as liquefied carbon carriers, championed by its strategic subsidiary MISC (MISC MK, BUY/Target: RM8.70). Some of these projects

16 Mar 26 Federal Court: Points

A 2018 Petronas Application To Federal Court - Dismissed

- Sarawak Chief Minister had in May 18 said with effect from 1 July 18, O&G industry players must abide by state laws such as the Oil Mining Ordinance (OMO) 1958 and Gas Distribution Ordinance (GDO) 2016
- Subsequently, Petronas filed an application for leave to the Federal Court under Article 4(4) of Constitution, seeking a declaration that PDA is the exclusive regulatory authority for both Malaysia and Sarawak's upstream industry, and that the OMO was impliedly repealed by the PDA.
- Petronas' application was rejected on technical grounds. The matters raised were still in the jurisdiction of the High Court. Thus, they did not meet the ambit of Articles 4(3) and 4(4) of the Constitution, i.e. to be within the exclusive jurisdiction of the Federal Court, and hence the request of leave by the Federal Court under Article 4(4) did not arise
- In Petronas press release dated 23 Jun 18, Petronas interpreted the Federal Court's decision (or lack of decision) meant the Federal Court (or the rule of law) did not affirm Sarawak's nor the GDO's position. The Federal Court noted Sarawak's concession on the PDA's validity.
- Indirectly, because there was no "final say" from Federal Court, Petronas is "legally inclined" to refer to the PDA only, and this is the consistent view that Petronas has held in all subsequent disputes with Petros.

High Court Feb 26 Ruling on RM7.95m Bank Guarantee

- High Court ruled Petronas' demand for a bank guarantee of RM7.95m from Petros is valid. Key reason is because Petros had failed to prove that the call on the bank guarantee was either unconscionable or unlawful.
- Indirectly, for Petros' argument to be successful, clarity on constitutional issues is ultimately required. The High Court made a firm statement that constitutional issues on PDA and GDO should be determined by the Federal Court.

Petronas Jan 26 Application For Leave By Federal Court

- Immediately, Petronas applied for 16 Mar 26 leave to refer the constitutional questions to the Federal Court and to seek clarity on its legal position for Sarawak operations
- Most likely applied under article 4(4) of the Constitution

Sarawak Petition to Federal Court

- Sarawak government filed its petition under Articles 4(3) and 128(1) of the Constitution, which gave the Federal Court exclusive original jurisdiction to determine whether federal laws are constitutionally valid and applicable to a particular state.
- Sarawak will oppose Petronas's own Federal Court application on jurisdictional grounds, as it does not fall within the scope of Article 128(1)(a). We believe this is merely technical error and not a show of animosity. It means there is no need to apply for a leave by Federal Court, but to file directly to Federal Court, if these matters are within its exclusive jurisdiction
- Sarawak's own laws, ie the Oil Mining Ordinance 1958 was enacted five years before Malaysia Day.
- Sarawak is of the view that when Sarawak joined Malaysia in 1963, those laws were never reprieved and were also retained under the constitutional arrangements at that time via the Inter-Governmental Committee Report 1962 – which also formed the Malaysia Agreement 1963
- Hence, the first of three points in Sarawak's petition is to seek that sovereign rights over Sarawak's petroleum resources were vested in Sarawak — not the Federation — on Malaysia Day by virtue of MA63
- The second point is that the Continental Shelf Act 1966 and the Petroleum Mining Act 1966 were extended to Sarawak only under the 1969 Emergency Proclamation and, following the annulment of that Emergency in Dec 11, lapsed in their application to Sarawak by Jun 12.
- Third point is to seek confirmation that the Sarawak Oil Mining Ordinance 1958 was preserved upon the formation of Malaysia and has never been lawfully repealed
- These 3 constitutional issues are necessary to ultimately determine the true position of PDA in relation to Sarawak's right, which was enacted by the federal government in 1974, which through Section 2 handed Petronas ownership and control over petroleum resources across Malaysia.

Source: Petronas, Media reports

are in JV form and are not necessarily implied in its moderate group capex guidance.

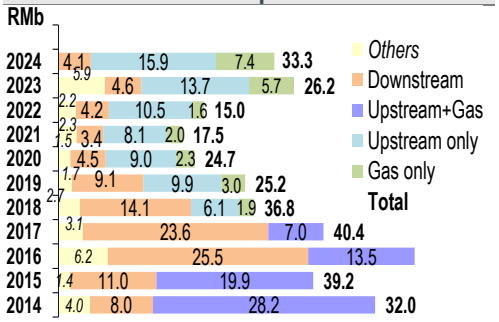
Sector Catalyst/Risk

- **16 Mar 26 - a key event that will have bearing on sector valuations.** Both Petronas and Sarawak filed separate Federal Court actions. A point of interest was when Petronas filed an application to the Federal Court on 23 Jun 18 to validate the Petroleum Development Act as the sole authority on Malaysia's petroleum industry. At that time, the application was rejected based on technical grounds because the case matter was still in the High Court's jurisdiction. Hence, the 16 Mar 26 hearing may be the critical timeline to watch, as it may be the date when the rule of law (via the highest court, ie Federal Court) provides clear and final clarity on Petronas' and Petros' positions.
- **Petronas walking the talk on upscaling the ecosystem will determine longer-term sector valuation upside.** In both MBR2026 and Petronas Activity Outlook, Petronas reiterated the important need to upscale the ecosystem to be a globally competitive and resilient value chain that can complement its market relevance and resilience in the ever-changing energy landscape. We opine these have to be put into action, to determine whether it is a "everyone is a winner" situation, or a case of selective beneficiaries (thereby inducing consolidation or involution).

Valuation/Recommendation

- **Maintain MARKET WEIGHT,** a sector call that we have retained since the Petronas-Petros fallout in 2H24, and hence this continues to assume no resolution scenario. We however advise a wait-and-see approach with 16 Mar 26 as the key event to watch out for. If a positive final resolution is made by the Federal Court, we believe this will be material enough to lift most of the MA63 discount on sector valuations since 2H24.
- **Top pick: MISC (MISC MK/BUY/Target: RM8.70).** We chose MISC as our top pick as it is a stable dividend play. While MISC is not yet out of the woods in terms of LNG fleet expiries, none of them are expected to materialise in 2026.
- **Dialog (DLG MK/BUY/Target: RM2.70), the new "upstream champion".** We see Dialog emerging as the new local champion. It benefits the most from new, flexible PSC terms that are already enabling quicker monetisation pathways. In this regard, Dialog is also the obvious beneficiary to short-term oil price spikes, yet will also benefit from energy security demand via its storage exposure.

Petronas Domestic Capex



Source: Petronas

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